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Office of the Secretary
Public Company Accounting Oversight Board
1666 K Street NW
Washington, D.C. 20006-2803

Re: Firm and Engagement Metrics

Dear Office of the Secretary:

RSM US LLP (RSM, “we”) values the opportunity to offer our comments on the Public Company Accounting Oversight Board’s (PCAOB) *Firm and Engagement Metrics* (the proposal). RSM is a registered public accounting firm serving middle-market issuers, brokers, and dealers.

Overall Comments on the Proposal

We support transparency and communication between the PCAOB, auditors, audit committees and investors; however, we have concerns on the proposal as written and encourage further discussion and public outreach be performed prior to issuance of a final standard.

Regarding the PCAOB’s authority to require the reporting of proposed metrics, we encourage the PCAOB to further assess the extent to which it has the statutory authority to issue certain aspects of the proposal. We support the Center for Audit Quality (CAQ) response on this subject.

We understand the potential benefit of certain metrics for audit committees in their selection and oversight of a company’s auditor; however, we have concerns related to publicly reporting engagement-level metrics. The audit committee already has the capability to ask the engagement team questions, and the teams can provide context and insight into audit and performance metrics that are directly related to the company. Because of the wide variance in the size and characteristics of issuers, engagement metrics are not likely to be broadly comparable across all entities. We are concerned that publicly disclosing engagement metrics with limited context (even with a proposed 500-character box) may be misleading and misinterpreted based on factors detailed in specific responses later in this letter.

Certain proposed firm metrics also raise concern in regard to the specificity and variance in information to be compiled and calculated. Firm client profiles and organization structures greatly differ and will inevitably result in incomparable reporting of metrics, notably in the industry expertise and quality performance ratings and compensation metrics.

We are also concerned that the inspection process and firm inspection reports are notably absent from the proposal. There is limited reference that these metrics could be used in the inspection process. However, the premise is made that investors require detailed metrics to evaluate and determine audit quality. Yet, as noted in footnote 202 of the proposal, “some research suggests that institutional investors may not be aware of or find value in PCAOB inspection reports.” As noted on the PCAOB’s website, “The purpose of a PCAOB inspection is to accurately assess, drive improvement in, and communicate audit quality.”¹ We are unsure whether investors who are not aware of or do not find value in PCAOB inspection reports, will become aware of or find value in detailed metrics provided by the firm for which they will need to perform their own additional analysis to infer audit quality. We recommend the board

¹ <https://pcaobus.org/oversight/inspections/basics-of-inspections>

perform dedicated and publicly transparent outreach to both audit committees and investors to understand whether such metrics are truly necessary and how they interrelate to the audit committee's and investor's evaluation of audit quality based on the inspections process.

Lastly, we continue to be concerned about the lack of time provided for responses to the board's proposals. The concept release underlying the proposal was published in July 2015, with little public deliberation over the several years leading to this proposal's issuance in April 2024. Allowing only 60 days for comment letter responses is foundationally disproportionate to the effort required to fully evaluate and respond to the lengthy and detailed proposal. We are concerned that the stakeholders are not being given reasonable opportunity to analyze the proposals and provide the PCAOB with thoughtful, constructive responses.

We provide further detail on these points, as well as other comments, in our responses to the specific questions set out below. Given the compressed timeline for response to the questions in the PCAOB proposal, we did not respond to each individual question.

Comments on Specific Questions Posed by the Board

Summary of the Proposed Metrics

1. Would the proposed metrics, individually or collectively, provide useful information for investors, audit committees, or other stakeholders? Why or why not? How would stakeholders use the metrics?

We are uncertain of the usefulness of the proposed metrics for investors. We are concerned that, as proposed, these metrics could lead to misinterpretation and be confusing to the evaluation of company results as compared to audit firm specific activities. Audit committees may find greater use in the data, as it is more applicable to their evaluation of an audit firm. However, audit committees currently do have the right and ability to ask audit firms for this information.

2. Are any of the metrics we are proposing overly focused on the operations of larger firms? If so, which metrics and how could we make them more neutral?

The metrics on audit resources and shared service centers are overly focused on the operations of larger firms. Smaller firms or networks are less likely to have shared service centers. We are also uncertain of the intended use of the shared service metric and are concerned it has a negative inherent bias. The use of shared service centers is not inherently an indicator of high or low audit quality.

Comparability

3. Are there other considerations we should be aware of that would increase or decrease comparability at the firm level? For example, would it be helpful to have subsets of information available by size of the firm or by size of the issuers the firm audits?

We are concerned that none of the metrics will be comparable across firms due to the differences in issuer size. Even within a firm, the engagement metrics for a large accelerated filer subject to an integrated audit vary significantly from the financial statement audit of a smaller reporting company, where the engagement team performed limited tests of the operating effectiveness of controls.

4. Are there other considerations we should be aware of that would increase or decrease comparability of the engagement-level metrics? For example, would it be helpful to capture information at the engagement level by industry sector, region, whether it is a first-year audit, or other criteria?

We do not believe providing information using these expanded criteria is necessary. The granularity will make it more likely that smaller firms' transparency will disclose individual client information. Likewise, providing regional information is not relevant to the interpretation of data.

Rounding and Use of Estimates

5. Is it appropriate for firms to report metrics by rounding to the nearest whole number except in cases where additional decimal places (no more than two) are needed to properly interpret the result or enable comparison to prior periods? If not, what would an appropriate level of precision be?

We are concerned about the reporting of metrics at this level of precision. We believe there needs to be "unintentional mistake" thresholds (materiality or de minimis) and a mechanism for revisions and a statute of limitations, such as reporting of time. QC 1000 stipulates a reasonable assurance level that could be applied in reporting.

6. Is it appropriate to allow firms to use reasonable estimates when actual amounts are unavailable? Should there be any other restrictions on the use of estimates? If so, what are they?

It is appropriate to allow firms to use reasonable estimates when actual amounts are unavailable. Estimations in hours reporting are inherent throughout certain engagement metrics and should be considered in the level of precision requested. These various metrics have a level of subjectivity and as auditors we need to make sound judgments in calculating.

Optional Narrative Disclosure

7. Should firms be permitted to provide narrative disclosure to provide context to the reported metrics? If not, why not? If yes, should narrative disclosure be allowed for all metrics or only certain ones? If limited, which ones?

We agree that firms should be permitted to provide narrative disclosure to provide context, clarity and to assist with comparability of all the reported metrics.

8. Should we place limits on the length or content of the narrative disclosure? If so, what should they be? Is a 500-character limit per metric appropriate? Should it be less or more? Should there be no limit?

A 500-character limit is too restrictive to anticipate the necessary context needed to provide useful narratives in presenting any or all of the firm-level and engagement-level metrics. We propose an unlimited character threshold for a voluntary response.

Key Terms and Concepts

9. Are the definitions for partners, managers, and staff clear and appropriate? If not, how should they be changed?

We are concerned that having different definitions and descriptions of populations used for various metrics will be confusing to users of the information, who may be evaluating the metrics without also referencing back each time to the specifics of the underlying definitions of who is included and who is excluded.

The definition of engagement team uses the phrase "who perform audit procedures" while the definitions of partners, managers and staff use the phrase "who participate in audits." We believe these should be aligned and the phrase "who perform audit procedures" should be used in all cases. This will avoid

inclusion of administrative personnel who may participate in audits in a project management or collation function, but not perform audit procedures, from being included in certain instances and excluded in others. We believe only those people who perform audit procedures are relevant for reporting firm metrics.

For the definition of partner, we question whether the definition is intended to have any alignment with ownership interests in a firm. The definition of engagement team includes the phrase “partners, principals and shareholders of,” while the definition of partner includes the phrase “partners or persons in an equivalent position (e.g., shareholders, members, or other principals).” It is unclear why these are different. It is also unclear from the definitions where a leadership level employee, such as those commonly in the Managing Director role, would align. They do not appear to meet either the definition of a partner nor of a manager. Because this is a prevalent role in the profession, we request clarification of the definitions.

For the definition of manager, it appears from the definition that the classification is based on the person’s general title in the firm. In certain instances, someone may hold a manager title, but due to a variety of circumstances may serve on an engagement in a senior or supervisor capacity. Conversely, an experienced supervisor may serve in a manager capacity on a less complex engagement. While aligning based on title will likely be easier for accumulation of information, we request clarity on whether this is the intent of the definition.

10. If the firm assigns partners, managers, and staff to specific business lines (e.g., audit, tax), should the firm-level metrics only include partners, managers, and staff of the firm’s audit practice? Why or why not?

We believe the focus should be on those who perform audit procedures. Different firms have different structures and attempting to separate members of the engagement team based on a firm structure could lead to less comparability across engagement and firm metrics.

13. Should engagement quality reviewers be added to any of the proposed metrics? If so, which metrics and should they be added as a separate category or together with a group, such as the engagement team?

Engagement quality reviewers are not part of the engagement team², so we would recommend not including them in the engagement metrics nor adding them as a separate category.

14. Is the proposed definition of core engagement team appropriate? Are the proposed thresholds for core engagement team members appropriate?

14a. The proposed threshold for partners (excluding engagement partners) is ten or more hours on the engagement. Should the hour threshold be higher or lower or based on a certain percentage of the total audit hours? If so, what is a more appropriate threshold to determine whether partners are part of the core engagement team?

14b. The proposed threshold for managers and staff is 40 or more hours or, if less, 2% or more of the total audit hours. Should the hour or percentage thresholds be different? If so, what should the hours and/or percentage be to determine whether managers and staff are part of the core engagement team?

14c. Alternatively, should partners, managers, and staff who reported a certain percentage of the hours on the engagement, whether they are from the firm issuing the auditor’s report (lead auditor) or other

² PCAOB Audit Standard 1220, *Engagement Quality Review*, paragraph .07

firms performing audit work (other auditors), be considered as part of the core engagement team? If so, why, and what should the threshold be for inclusion of individuals or other firms?

As noted in our response to question 9, there are additional inconsistencies added in the language of this definition describing the relevancy of the work perform. The definition of core engagement team now adds the concept of “who worked” as the determination of relevance. We recommend the phrase “who perform audit procedures” replace “who worked” in this definition to be consistent with the definitions of engagement team and our proposed updates to the definitions of partner, manager and staff. We are concerned that wording inconsistencies may cause confusion as to whether the same criteria apply across the various definitions.

15. Is the proposed term hours worked clear and appropriate? If not, how should it be changed?

We believe a clearer definition of the proposed term “hours” is required if this metric is to be used. For example, firms may be inconsistent on how they report hours spent on travel for work purposes.

16. Is it appropriate to use the Form AP hours for the total audit hours in the metrics? If not, how should the hours be accumulated for the metric calculations?

Yes, we believe it is appropriate to use the Form AP hours for the total audit hours in the metrics.

17. Is it appropriate to include total audit hours for all issuer engagements in the firm-level metrics, as proposed? Or should the metric be limited to total audit hours for large accelerated filer and accelerated filer engagements? Why or why not?

Limiting the metric to large accelerated filer and accelerated filer engagements may result in more comparable data among firms.

Partner and Manager Involvement

18. Are the proposed descriptions and calculations of the firm-level and engagement-level metrics for partner and manager involvement clear and appropriate? If not, why not?

It is unclear to us whether hours spent on quarterly reviews would be included or excluded from these calculations. Often, engagement teams will perform audit procedures during interim review periods and interim review procedures provide information that is utilized in the risk assessment process for the audit. If quarterly review procedures are excluded from these metrics, firms may need to implement more detailed time tracking mechanisms or estimations of time between quarterly review and year-end audit procedures.

As shown in the illustration on page 40 of the proposal, component auditor time breakouts that would be included in this calculation may not currently be metrics provided to the group auditor. We are concerned this is an additional level of detail that may be difficult to gather and verify the accuracy of. We are also unsure whether inclusion of component auditor work in firm-level metrics would provide the appropriate reporting for an investor to understand the firm’s utilization of resources. We recommend firm-level metrics include only hours worked by those employed by the firm reporting the metrics.

19. Would it be helpful to separate the calculations for partner involvement and manager involvement? Why or why not?

No, it would not be helpful to separate the calculations for partner involvement and manager involvement. As we understand the metric, the purpose is demonstration of engagement supervision and review.

Further breakdown by role would lead to more inconsistencies across engagements. The increased differences in how firms are structured, such as a managing director role, would create disparities that outweigh any benefit of more incremental disclosure.

20. Because of the importance of the engagement partner's role, would it be helpful to separate the calculation for engagement partner involvement from the calculation of the other partners and managers on the audit? Why or why not? Is there another way in which a metric could focus on the role of the engagement partner and, if so, what is the metric and how should it be calculated?

We advocate to keep the calculation for engagement partner involvement included with the calculation of the other partners and managers on the audit. Keeping them together aids in the evaluation of the review and supervision within the engagement as a whole.

21. Instead of partner and manager involvement, should firms disclose partner and manager hours compared to staff hours on the audit (i.e., a staffing leverage ratio)? If so, why?

No.

Workload

22. Are the proposed descriptions and calculations of the firm-level metrics and engagement-level metrics for the engagement partner workload and partner (excluding the engagement partner), manager, and staff workload clear and appropriate? If not, why not?

We do not believe these metrics will be comparable across firms due to variance of the size of each firm's issuer practice. The firm metric should be on an annual basis, not weekly or quarterly, as a multitude of factors affect workload throughout the year.

23. Should we require separate metrics for partner (excluding the engagement partner), manager, and staff workload? If so, why? Should the metric be limited to workload information for partners (other than the engagement partner) and managers? Why or why not?

We do not believe these metrics should be further divided into additional categories.

Audit Resources – Use of Auditor's Specialists and Shared Service Centers

24. Are the proposed descriptions of the firm-level and engagement-level metrics for use of (i) auditor's specialists and (ii) shared service centers clear and appropriate? If not, why not?

As proposed, the firm-level metric asks for the number of engagements in which specialists and shared service centers are used. By this definition, one hour of time would produce the same results as engagements with 100 hours of specialist or shared service center time, which may mislead the reader on actual level of involvement. For example, an engagement may involve a specialist, such as a forensics or valuation specialist, in the planning meeting for assistance in brainstorming. Based on the assessed risks of material misstatement, the engagement team may determine that such specialist is not required to be involved in further audit procedures. However, with the simple metric proposed, this engagement would reflect in the firm metrics as utilizing a specialist, which the engagement metrics would reflect only a minimum hour of usage. We are uncertain the benefit that will be provided by the aggregated firm metric proposed.

25. In situations in which the hours are unavailable, we are proposing that firms estimate an hourly equivalent for auditor-engaged specialists. Is there another way this information could be captured? If

so, what is it? Are there other practical challenges with respect to auditor-engaged specialists that we should consider?

We are uncertain of the value provided by estimating the hours performed by auditor-engaged specialists. Because this is an engagement level metric, we believe providing this to the audit committee with qualitative or narrative explanation of the work performed by an auditor-engaged specialist would serve the purpose of informing them of the work performed in relation to the engagement in a more meaningful and accurate manner than an estimated hours calculation.

26. With respect to the firm-level metrics for the use of (i) auditor's specialists and (ii) shared service centers:

26a. The metrics calculate the percentage of issuer engagements on which (i) auditor's specialists and (ii) shared service centers were used. Alternatively, should these metrics calculate the average percentage of usage of (i) auditor's specialists and (ii) shared service centers across all of the firm's engagements?

26b. The metrics for use of auditor's specialists and shared service centers at the firm-level calculate the percentage of issuer engagements in which specialists or shared services centers, respectively, were used, no matter how minor their involvement may have been. Should the metric capture only engagements in which an auditor's specialist or shared services center was used for a minimum number of engagement hours, such as 2% or 5%? If yes, what should the threshold be?

26c. We have proposed that the firm-level use of (i) auditor's specialists and (ii) shared service centers metrics be provided in aggregate across all of the firm's issuer engagements. Alternatively, would it be beneficial to provide either of these metrics by industry for those industries included in a firm's industry experience metrics? Why or why not?

We believe the metrics should be calculated based only on issuer engagements. Given the wide disparity of private company engagements, a combined metric will produce incomparable results across firms.

We do not believe adding industry level reporting would be beneficial.

27. With respect to the proposed metrics related to shared service centers:

27a. The description of what is a shared services center is consistent with the description in the Form AP guidance. Should the description be more broad to include other arrangements such as (1) those that are captive to an individual firm, where the staff are employees of the firm, (2) service centers that have a separate legal entity but dedicated solely to the support of an individual firm, (3) service centers that are external to a firm but provide similar services to several affiliated or non-affiliated firms, (4) service centers that are located in the same jurisdiction as a firm, or (5) solely those that are located in another jurisdiction? Why or why not?

27b. At the engagement-level should the firm report the types of work performed by the service center (e.g., non-complex tasks such as data input, data validation and data formatting, checking schedules for mathematical accuracy, updating standard forms and documents (such as engagement letters and representation letters), rolling forward standard work papers (such as lead sheets), performing reconciliations, and similar activities) or indicate the specific areas of the audit in which work of shared service centers was used (e.g., revenue, cash)? If so, what should be reported?

We do not believe the description of a shared service center should be different than what is included in the Form AP guidance. Inconsistencies in reporting add unnecessary complexity to tracking systems and can result in confusion among users of the information.

We are also concerned about the intended interpretation of such information by investors and audit committees. We do not believe that the use of shared service centers is an indicator of high or low audit quality. However, when provided as a metric, is there an inherent bias in the requested reporting that use of a shared service center represents higher or lower audit quality work? As noted on page 49 of the proposal, at an engagement level such metrics may provide basis for discussions with audit committees. We agree with this as a positive outcome. However, at a firm level, we are uncertain whether these metrics would provide sufficient information to enable helpful decision making on the quality of a firm.

Experience of Audit Personnel

28. Are the firm-level and the engagement-level metrics we are proposing for experience of audit personnel clear and appropriate? Should relevant experience be limited to auditing experience rather than including all experience at a public accounting firm? Conversely, is there other relevant experience that would be valuable to include when determining years of experience (e.g., experience at a relevant regulator or standard setter)? If so, how should that experience be measured?

We do not understand how experience of audit personnel will be useful as a firm-level metric. Experience will vary vastly and presenting averages at a firm level does not seem meaningful. However, if reported, we do believe that experience as a standard setter or regulator should be relevant in determining years of audit experience.

If this metric is implemented, accuracy of compiling personnel professional profiles will be challenging, especially validating time worked at other firms in accordance with the requirements of the system of quality control. We believe firms will need to gather additional data and adopt new controls around tenure outside of the organization that could be onerous and costly. We encourage the PCAOB to perform outreach to investors to better understand how such metrics would be used and whether they are worth the expanded costs.

In our experience, audit committee discussions about engagement team member experience currently happen, however such requests are not for quantitative metrics, but more holistic evaluation of experience. As such, we recommend the PCAOB perform outreach to audit committees to understand whether such metric would have sufficient incremental value to the decision-making process to be worth the implementation of new systems and controls.

Industry Experience of Audit Personnel

29. Is three years of experience for managers and five years of experience for partners an appropriate threshold for industry experience? If not, what number of years should we use? Should the same number of years be used to determine industry experience for all levels of seniority (e.g., audit partner and audit manager)?

We are not sure how this metric will be operable, particularly in the context of historical information. The data to support proving experience in various industries may not exist historically and may not be mapped as set forth in the proposal. For personnel who have moved firms, they would not have access to hours or other data to demonstrate compliance with these thresholds. We encourage further outreach by the PCAOB to firms to determine the ability to prepare such information and to investors and audit committees to understand how such firm-level metrics would be used in decision making. Currently, discussion of industry expertise frequently occurs between the auditor and the audit committee. It would be beneficial for the PCAOB to perform outreach to audit committees to determine whether these new specific metrics, when requested, would enhance the existing disclosures made at an engagement level.

30. We have proposed the following considerations to be taken into account when determining an individual's industry experience: (1) industry experience may be, but is not required to be, exclusive to experience on audit engagements but must be relevant, (2) industry experience is not required to be in consecutive years, and (3) auditors may have industry experience in more than one unrelated industry. Are these the right considerations? Should industry experience be determined by a minimum number (or percentage) of hours on engagements within a particular industry? Does it matter whether the years of experience have been recent or if the experience was not obtained as an auditor? If so, please provide an explanation.

As demonstrated by the complexity of attempting to define this metric, we do not believe reporting industry experience at a firm or engagement level can be made comparable. For example, Manager A has spent 100% of the prior two working years in technology, and Manager B spent 25% of their time in technology for five years, but that was 10 years ago. As proposed, the metric would reflect that Manager B has more industry experience than Manager A when the situations are not comparable. In fact, Manager A's industry experience would be entirely discounted, as their two years of experience is under the three-year threshold and would not be included in the reporting. We believe rather than expending significant efforts to try and further define an incomparable metric, firms should provide engagement-level metrics through discussion with audit committees, which allows the firm to fully explain how industry expertise is determined and the relevancy to the particular issuer audit.

31. If an auditor does not work exclusively in one industry, what are the considerations to determine whether the auditor has qualifying experience in multiple industries? Should it be based on hours (time) worked in a specific industry with a minimum percentage, for example 250 hours or 25% of the auditor's time focused on a particular industry as we have proposed?

We believe this further demonstrates the challenge of presenting this metric. Many auditors do not work in only one industry, and industries may not align to those categories proposed by the PCAOB. This will be incomparable across firms and does not provide contextual information relevant to users.

32. We have proposed the FTSE Russell Index as a reference for industry classification based on supersector and certain disaggregation to the sector or subsector level. Is this index and disaggregation appropriate? Is there a more suitable reference index? If so, what is it and what are the comparative benefits of other indices?

Because the 10% metric is based on firm audit revenues, the FTSE Russell Index does not include all industries that may be relevant to a firm's audit practice. It is focused on industries relevant to the issuer audit practice. It would be helpful for the PCAOB to clarify how industry experience in industries not accounted for (e.g., public sector, government) should be considered or if they are simply omitted from this exercise.

Retention and Tenure

36. Are the descriptions and the calculations of the proposed (i) retention rate and (ii) headcount change at the firm level and engagement level clear and appropriate? If not, why not?

The descriptions and the calculations of the proposed firm level average annual retention rate and engagement-level metrics are convoluted and will be exceptionally difficult to track and finalize for reporting on Form AP. Based on the examples in the proposal, this will be at risk of misinterpretation and different application by firms. The complexity of the calculation shown on pages 76 through 78, which demonstrate only manager-level calculations, which is a subset of an engagement metric, demonstrate the complexity of the metrics.

Audit Hours and Risk Areas

41. Is the calculation of the audit hours and risk areas metric clear and appropriate, including the components of the calculation? Why, or why not?

The calculation of the audit hours and risk areas metric is not clear and appropriate. We do not understand why the selected factors have been chosen and elevated to a level of being considered the areas of “greater risk of material misstatement.” The inclusion of critical accounting policies and practices and critical accounting estimates is not methodologically consistent with the construct of PCAOB AS 2110, *Identifying and Assessing Risks of Material Misstatement*. Critical accounting policies and practices and critical accounting estimates may be determined to be significant risks, but are not always, thus we do not understand why they have been selected from the listing in PCAOB AS 1301, *Communications with Audit Committees*, paragraph .12 of four factors communicated to the audit committee. If the intent of the disclosure is to identify areas of greatest risk of material misstatement, then alignment with the significant risk determination in AS 2110 would be more appropriate.

42. Are firms currently tracking the time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates? If not, what should the Board be aware of related to potential costs or challenges related to obtaining this information?

Tracking time incurred by partners and managers on significant risks, critical accounting policies and practices, and critical accounting estimates would be incredibly subjective and difficult to do. Because these categories are not in alignment with the risk assessment process, it would be onerous to determine how to track such costs. We are concerned that this would become an administrative burden that would work against the auditor’s ability to provide high-quality audit services. We believe it is more important that an auditor perform their work with professional due care than track and report hours for individual workpapers. This is an area where a wide disparity of results will be shown, depending on the use of technology tools and techniques, test of controls, and other variables. We are concerned if the focus is “more is better,” then an auditor may set aside appropriate professional judgment that would lead them to consider a data analytic tool or test of controls as an appropriate response and may instead spend multiple hours of lesser-quality detail testing time done by lower staff or a service center to enhance the percentage of hours spent on these areas. We do not think this will enhance or be indicative of audit quality. Likewise, the use of technology tools and techniques may reduce actual staff hours but the outcome is higher audit quality. We are concerned this metric may disincentivize innovative audit techniques.

43. Should this metric only report the percentage of hours for the partners and managers on the core engagement team instead of all partners and managers on the engagement team? Why or why not?

If retained, this metric should only report the percentage of hours for the partners and managers on the core engagement team instead of all partners and managers on the engagement team. We are concerned that for component auditors using a different time and reporting system, the group auditor would be put in the untenable position of needing to determine whether the information provided by the components was reliable. This could result in a firm determining that systems outside of their firm or control are now subject to their system of quality control. We are uncertain how that would be implementable.

44. Under the proposal, the definition of engagement team includes employed specialists, but not engaged specialists. Should this metric be revised to also include engaged specialist hours? Why or why not?

No; in alignment with our response to Question 25, we do not believe engaged specialist hours should be included.

Allocation of Audit Hours

45. Is the calculation of the allocation of audit hours to prior to and following the issuer's year end clear and appropriate? Why, or why not?

We believe the calculation of the metric appears straightforward; however, we request clarification as to whether hours spent on quarterly reviews are included or excluded from this calculation. Please see our response to Question 18 for further consideration of the separation of time between quarterly reviews and year-end audit work.

We are concerned that a firm-level metric would not be comparable due to changes in circumstances of specific issuers. Perhaps for the largest firms, individual issuer circumstances may not be significant enough to move the metrics, but for smaller firms, individual issuer circumstances could impact the overall results. For example, an issuer could have a large acquisition during the fourth quarter that would lead to a significant shift of hours after the end of the year.

46. Would a different, more granular, metric be more appropriate, for example allocation of audit hours devoted to each phase of the audit—planning, quarterly reviews, interim field work, final field work up until report release date, and post-report release date until audit documentation completion date? Why, or why not?

No, a different, more granular metric would not be more appropriate.

Quality Performance Ratings and Compensation

53. Would it be more appropriate to disclose firm policies relating to partner compensation and how quality performance is measured and incorporated into the firm's policy, rather than reporting the proposed compensation and quality performance rating related metrics? Why or why not?

Yes, we believe the disclosure of partner compensation policies and performance measurement would be more appropriate to disclose than broad percentages. We are concerned that different forms of organization and ownership structures, as illustrated by the details in questions 48-52, would render such metrics incomparable. Firms all have different compensation structures and performance evaluation systems, which would not allow for comparison across firms.

Audit Firm's Internal Monitoring

54. At the firm level, we are proposing to require firms to provide disclosure of (i) the period covered by the firm's most recently completed internal monitoring cycle, (ii) the percentage of issuer engagements selected for internal monitoring, and (iii) the percentage of internally monitored engagements that had an engagement deficiency. Should we also consider providing the actual numbers of engagement deficiencies identified in the firm's most recent monitoring calendar? Why or why not?

We do not believe providing actual numbers of engagement deficiencies to be necessary or relevant. Internal inspections may aggregate or evaluate engagement deficiencies differently and such quantitative metrics may not be comparable across firms.

55. At the engagement level, firms would be required to disclose whether a previous engagement for the issuer was selected for internal monitoring in the most recently completed internal monitoring cycle and, if so, whether the firm identified any engagement deficiencies related to (1) financial statement

line items, (2) disclosures, or (3) other noncompliance with applicable professional and legal requirements. Are these categories appropriate? If not, why not? Should there be additional categories? If so, what should they be and what types of deficiencies should they cover? Provide an explanation of your answer.

We do not believe it is appropriate to provide public reporting of engagement level inspection results.

We do not find footnote 155 to be persuasive or an accurate representation of the nonpublic or confidential information requirements intended in the Sarbanes-Oxley Act of 2002 (SOX). To state that SOX does not specifically prohibit this disclosure, when in fact this disclosure is not even contemplated or addressed in SOX, is inappropriate. We do not believe it is appropriate to provide inspection information individually identifiable to any issuer in a public filing.

In the PCAOB 2022 Inspection procedures publication,³ the PCAOB itself provides evidence of the importance of anonymity when broadly discussing their process to prepare an inspection report (paragraph 5 on page 2), which states, "Within Part I.A, we identify each issuer by a letter (e.g., Issuer A) and industry sector. In instances where classifying an issuer using its industry sector could make an issuer identifiable, we have not included the industry sector in Part 1.A." Breaching that confidentiality for internal inspections is not appropriate.

56. For each engagement deficiency identified, we are proposing that the areas of noncompliance and the type of testing deficiency or the standard or rule with which the noncompliance was identified also be disclosed. Is this an appropriate level of detail to understand identified deficiencies? Why or why not?

No, we do not believe it is appropriate to disclose the areas of noncompliance and the type of testing deficiency or the standard or rule with which the noncompliance was identified for each engagement deficiency identified.

57. For each engagement deficiency identified that relates to (1) financial statement line items or (2) disclosures, we are proposing that the type of testing deficiency be identified (e.g., testing of design or testing of control effectiveness), whereas for deficiencies related to (3) other noncompliance with applicable professional and legal requirements we are proposing that the standard or rule with which the noncompliance was identified also be disclosed. Should we require that the standard or rule with which noncompliance was identified be disclosed in all cases? Why or why not?

No, it is not appropriate to disclose each engagement deficiency identified that relates to (1) financial statement line items or (2) disclosures or (3) other noncompliance with applicable professional and legal requirements.

Restatement History

63. Should we also require restatements to be reported at the engagement level on Form AP? Why or why not?

No, restatements should not be required to be reported at the engagement level on Form AP, as restatements are already public information readily available in the entity's public filing and do not need to be repeated on Form AP. Investors can obtain this information in readily available, searchable format through the SEC's EDGAR system.

³ https://assets.pcaobus.org/pcaob-dev/docs/default-source/inspections/documents/2022-inspections-procedures.pdf?sfvrsn=70fd8495_3

Thresholds for Required Reporting

64. For firm-level metrics, is the threshold for reporting appropriate? If not, what would be an appropriate threshold? For example, should we require a threshold for firms that audit companies of a certain size, market capitalization, or another method?

We believe there is application guidance or clarification needed on the transition period should filer statuses change. As we interpret the proposal, presuming a December 31 year-end for a firm that audited no accelerated filers but had an issuer move into accelerated status and thus require firm reporting, the transition period would be:

- June 30, 2025: Issuer exceeds SEC Market Cap rule and triggers accelerated filer status.
- January 1, 2026: Issuer becomes an accelerated filer.
- March 31, 2026: Issuer first checks box on Form 10-Q indicating accelerated filer status.

The firm year for this proposal is October 1, 2025, to September 30, 2026. The firm learned on June 30, 2025, that the proposed standard would be required to be adopted. The firm would have three months from June 30, 2025, to October 1, 2025, to implement all reporting systems and controls necessary to capture all disclosures. That does not seem long enough to be successful and instead it could have the unintended consequence that a firm would complete the 2025 audit in March 2026 and be forced to resign from the audit to avoid the reporting requirement.

We request the PCAOB clarify if the illustration we have prepared is a faithful representation of the proposal and the intended implementation timeline for such transitions. If so, we request that the PCAOB evaluate whether such transition period would provide sufficient time for a firm to implement this proposal.

65. Should smaller firms have different reporting requirements than larger firms? Why or why not? If so, how should the reporting of metrics differ?

Yes, there should be different reporting requirements for smaller firms than for larger firms. The proposition made in this proposal is that audit committees and investors could benefit from this information. Because the onus will still be on those parties to seek such information and then create comparisons across firms, we believe not all audit committees and investors will undertake such activities. As such, requiring firms to prepare information, establish a system of quality control around such information and divert resources from the performance of audits to administrative tasks to produce information that is not used does not enhance audit quality. We are also concerned that specific issuer or personnel information will be discernable when firms with smaller issuer practices publish firm-level metrics.

Reporting of Firm-Level Metrics

67. Is September 30 an appropriate reporting date for firm-level metrics with a filing date of November 30? Is there an alternative reporting date that would be more appropriate and if so, what date? Is there an alternative filing date that would be more appropriate and if so, what date?

The September 30 reporting date is reasonable; however, we would suggest allowing firms to pick a reporting date based on their firm cycles.

68. Rather than reporting on Form FM, should firms report firm-level metrics, as of March 31 on Form 2, which is due on June 30? If so, why?

No, between issuer filings through March 31 and the performance of procedures on the first quarter filings through May, firms are exceptionally busy through the middle of May each calendar year. Accelerating more administrative burden into the audit busy season will not enhance audit quality.

Inclusion of Metrics in the Audit Report

73. Would it be appropriate for us to require inclusion of some or all firm- and engagement level metrics in the audit report in addition to PCAOB forms? On what basis should particular metrics be included or excluded?

No, it is not appropriate to require inclusion of some or all firm- and engagement-level metrics in the audit report. For the same rational included in our response to PCAOB Rulemaking Docket Matter No. 029,⁴ the auditor's report is not an appropriate reporting mechanism for such information.

74. Are there engagement-level metrics for which inclusion in the audit report would not be practicable, given the time needed to gather the data and make the required calculations? If so, which?

There are no engagement-level metrics for which inclusion in the audit report would be practicable. Very few of these can be calculated and reported prior to report issuance. For example, a firm could not calculate a complete population of hours in the audit prior to report issuance, as time incurred for the issuance of the report and the report assembly period would happen after such reporting. Additionally, many of the metrics presume aggregation of data from multiple countries and cannot happen in a compressed timeframe.

75. If we were to require inclusion of metrics in the audit report, is there a specific placement or format that we should require? If so, what should that be (for example, at the bottom of the audit report, below the firm signature, or as an attachment to the report)?

We do not support inclusion of metrics in the audit report.

76. Are there costs associated with inclusion of metrics in the audit report that we have not considered? If so, what are they?

Yes, as further described in our in our response to PCAOB Rulemaking Docket Matter No. 029,⁵ we are concerned of unintended and unnecessary costs. For example, if it was identified that an engagement metric was misstated, the issuer would need to file a 10-K/A to amend the audit report in the event of new information resulting in updated metrics. This would be an administrative cost that would be significantly higher and involve more parties at the issuer and the issuer's legal counsel than an updated PCAOB form and would not benefit investors.

Documentation

79. Is the proposed documentation requirement clear and appropriate? If not, why not?

We would like further explanation as to the expectation of the evaluation of metrics as part of the PCAOB inspection process. As stated in the proposal, the documentation requirement aligns with the

⁴ https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket029/020d_mcgladrey.pdf?sfvrsn=401842db_0

⁵ https://assets.pcaobus.org/pcaob-dev/docs/default-source/rulemaking/docket029/020d_mcgladrey.pdf?sfvrsn=401842db_0

documentation requirements in the audit standards; however, it is unclear how this documentation will be expected to be reviewed. The PCAOB should clarify whether the inspection program will be modified to perform ESG attestation work or testing of the development of the reported metrics. If so, the PCAOB should seek public feedback from audit committees and investors as to whether the expanded scope of data evaluation is an appropriate use of inspection resources.

Potential Additional Firm and Engagement Metrics

80. Are there benefits to requiring a training metric at either the firm level or the engagement level that we have not considered? If so, what metric would provide useful information and how would the challenges that we have considered be overcome?

- a. Would it be useful and appropriate to disaggregate by level for all audit professionals (e.g., partner, manager, and staff), or limit to only certain positions, (e.g., partners)? If so, what levels should be disclosed?
- b. Would it be useful and appropriate to include a requirement for training to be disclosed for specific fields of study (e.g., accounting and auditing or independence and ethics, or fraud)? If so, what are they? Is it challenging to accumulate that information? Why or why not?
- c. Would it be useful and appropriate to require disclosure of training hours? Or should we measure continuing professional education completion compliance rates instead of or in addition to training hours?

No, we agree with the rationale that it would be difficult to get consistency across firms and the training metric alone does not demonstrate the quality or content of training attended.

84. Would it be useful and appropriate to require disclosure of firm- and engagement-level metrics specific to use of the firm's national office resources? If so, how would such information be used?

- a. "National office" is not a defined term and may have different meanings at different firms. How should "national office" be defined?
- b. Would it be useful and appropriate for a metric regarding national office involvement include every consultation (e.g., required or voluntary) or should a distinction be made between types of consultations? If so, how should that distinction be made?
- c. Would a firm-level metric indicating the percentage of audit engagements that have consulted with the national office be appropriate and useful? Why or why not? Would an engagement-level metric indicating the number of consultations performed by the engagement team be appropriate and useful? Why or why not?
- d. How would such a metric work at firms that do not have a national office or equivalent? Should such firms provide information regarding consultations with others inside or outside the firm?

No, we believe this metric would be biased toward larger firms and not representative of comparable quality across all firms.

85. Are there benefits to requiring a metric at the firm-level specific to investment in infrastructure that we have not considered? If so, what metric would provide useful information and how would the challenges that we have considered be overcome?

No, it would be challenging to track and report specific investment in infrastructure in a comparative way across firms of various sizes. There would be obvious differences between firms who fully develop in-house all technology infrastructure and tools, those that perform a hybrid of development and vendor

alignment, and those who purchase all relevant infrastructure from vendors. It is not appropriate to presume that any point on such a spectrum inherently results in higher or lower audit quality.

Costs

99. Have we appropriately described the costs, including costs to smaller firms or issuers? If not, how can we improve the analysis?

We are incredibly concerned by the cost estimates as outlined in this proposal and are concerned the costs do not provide the intended value. Utilizing the metrics in footnote 339 that support the staff's estimated range of total costs across all impacted firms to implement an automated system from the ground up could range from approximately \$363 million to \$506 million as stated on pages 164 and 165. Using a simple estimate of the market share of public company audits by firm⁶ to apportion these costs, RSM would estimate that applying these factors would result in an implementation cost of this proposal between \$7 million and \$10 million for our firm. We believe this is a low estimate, as the largest firms will likely benefit from economies of scale in their implementation, but we used this as an attempt to provide actionable consideration items from the broad estimate provided. This is a significant cost, of which a portion could be passed to issuers through fees. Based on our issuer count, as included in the same report, if the full cost of implementation were passed through to issuers, this would increase audit fees by between approximately \$50,000 and \$70,000 per issuer. We believe it is important for the Board to seek feedback from investors and audit committees as to whether this information is valuable enough to pay such increased fees to audit firms to absorb this cost. Conversely, we are concerned that if the expectation is that firms would absorb this increased cost as additional costs of doing business in the issuer space, for certain firms, costs will erode the profit margin to such an extent that they may choose to exit or greatly reduce their participation in the public company audit practice. Firms who remain may need to divert significant portions of their investment dollars from areas that would enhance audit quality, such as data analytics, automation and artificial intelligence into technology and manual processes focused on administrative data gathering. If costs are passed through, issuers may be incentivized by cost to move to smaller public accounting firms who do not have to report such metrics and thus can produce audits at a lower cost. We do not believe this will enhance audit quality.

Unintended Consequences

103. Have we appropriately described the potential unintended consequences? If not, how can we improve the analysis?

A potential unintended consequence that is not fully described is the decrease in competition as firms continue to leave the issuer practice. We have seen recent examples of even large firms voluntarily exiting the issuer audit space, which we are concerned will lead to declines in audit quality.

Page 172 of the proposal includes the expectation that "In extreme cases, risky issuers may not be able to find an auditor, may be forced to hire a low-quality auditor, or may be forced to delist." We are concerned that PCAOB would find issuers being required to delist as an appropriate outcome of the publication of audit firm metrics. We are unclear how such results promote the best interests of investors in those issuers.

⁶ Taken from page 4 of the Audit Analytics report, *Who Audits Public Companies*, May 2023, https://auditanalytics.com/doc/2023_Who_Audits_Public_Companies_Report.pdf

Effective Date

111. Would the effective dates described above provide challenges for auditors? If so, what are those challenges, and how should they be addressed?

We believe that one year is too short of a period, as implementation would require system changes and more detailed tracking. The system of quality control necessary includes a monitoring component which would not permit firms enough time to design and implement systems, enable change management that is necessary, and test operating effectiveness of the controls around the production and reporting of the metrics.

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We would be pleased to respond to any questions the PCAOB or its staff may have about our comments. Please direct any questions to Jamie Klenieski, Audit Quality and Risk Leader, at 215.648.3014, or Sara Lord, Chief Auditor, at 612.376.9572.

Sincerely,

RSM US LLP

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